

Sanilac County, Michigan

**SUPPLEMENTARY INFORMATION TO
FINANCIAL STATEMENTS
(FEDERAL AWARDS)**

December 31, 2006

Sanilac County, Michigan

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Commissioners
of Sanilac County
Sandusky, Michigan

Compliance

We have audited the compliance of Sanilac County with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that is applicable to the major Federal programs for the year ended December 31, 2006. Sanilac County's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs are the responsibility of Sanilac County's management. Our responsibility is to express an opinion on Sanilac County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on major Federal programs occurred. An audit includes examining, on a test basis, evidence about Sanilac County's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Sanilac County's compliance with those requirements.

In our opinion, Sanilac County complied, in all material respects, with the requirements referred to above that are applicable to the major Federal programs for the year ending December 31, 2006.

Internal Control Over Compliance

The management of Sanilac County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing our audit, we considered Sanilac County's internal control over compliance with requirements that could have a direct and material effect on the major Federal programs in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control structure that might be material weaknesses. A material weakness is a condition in which the design or operation of one (1) or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to the major Federal programs being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

We have audited the financial statements of the governmental activities, business-type activities, each major fund, the aggregate discretely presented component units, and the aggregate remaining fund information of Sanilac County as of and for the year ended December 31, 2006, and have issued our report thereon dated June 28, 2007. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Sanilac County's basic financial statements. The accompanying schedule of expenditures of Federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Commissioners and management of Sanilac County, the pass-through grantors, and the U.S. Departments of Health and Human Services, Homeland Security, Housing and Urban Development, Justice, Agriculture and Labor, and the Environmental Protection Agency and is not intended to be used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

September 28, 2007

Sanilac County, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended December 31, 2006

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantors Number</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
Passed through Michigan State Housing Development Authority Community Development Block Grant (CDBG) Program (State's Program) 05/06 Housing Program (County)	14.228	MSC-2005-0813-HOA	\$ 122,909
Passed through Michigan Economic Development Corporation Community Development Block Grant (CDBG) Program (States Program) 03/06 Revolving Loan Fund Program 01/06 Revolving Loan Fund Program	14.228	N/A N/A	11,014 <u>9,792</u>
			143,715
U.S. DEPARTMENT OF LABOR			
Passed through Michigan Department of Career Development and Michigan Works! Thumb Area Consortium Employment Services	17.207	N/A	56,956
U.S. DEPARTMENT OF HOMELAND SECURITY			
Passed through Michigan Department of State Police Emergency Management Performance Program	97.042	N/A	3,370
State Domestic Preparedness Equipment Support Program 2004 Homeland Security Grant (BRNE Equip.) 2004 Homeland Security Grant (BRNE Equip.) 2004 Homeland Security Grant (BRNE Equip.)	97.004	P41004HSGP P41104LETPP P45104HSGP	154,226 5,405 <u>21,963</u>
			181,594
Homeland Security Grant Program 2005 BRNE Equip. 2005 Enforcement Terrorism	97.067	P50205HSGP P55105LETPP	15,423 <u>5,028</u>
			<u>20,451</u>
			205,415
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through Michigan Department of Community Health Family Planning Services	93.217	05H000173	62,680

Sanilac County, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

For the Year Ended December 31, 2006

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantors Number</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES - CONTINUED			
Passed through Michigan Department of Community Health - continued			
Childhood Immunization Grants	93.268	H23 CCH522556	
IAP			\$ 17,690
VFC Provider Site Visits (a)			1,800
AFIX Visits (a)			300
Vaccines (e)			<u>121,090</u>
			140,880
Centers for Disease Control - Prevention			
Investigating Technical Assistance	93.283		
Bioterrorism		CCU517018	
Focus A			175,157
Pandemic Flu			<u>19,242</u>
			194,399
Medical Assistance Program	93.778	5XX05MI5048	
Case Management Services			14,902
Plan of Care Level II (a)			<u>240</u>
			15,142
HIV Prev Act Health Department Based	93.940	U62-CCU523464	
AID/HIV Prev. Counseling and Testing (a)			51
Maternal and Child Health			
Services Block Grant	93.994	B1MIMCHS	
Family Planning			12,620
Local MCH			34,519
Case Management			<u>10,917</u>
			58,056
Passed through Michigan Family Independence Agency			
Child Support Enforcement (Title IV-D)	93.563		
Cooperative Reimbursement - Friend of the Court ^(b)			
06/07		CS/FOC-07-76001	75,389
05/06		CS/FOC-06-76001	223,166
Cooperative Reimbursement - Prosecuting Attorney ^(b)			
06/07		CS/PA-07-76002	13,231
05/06		CS/PA-06-76002	28,610
Incentive Payments ^(c)			
2006 Regular		N/A	<u>66,245</u>
			406,641

Sanilac County, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

For the Year Ended December 31, 2006

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantors Number</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES - CONTINUED			
Passed through Michigan Family Independence Agency			
Promoting Safe and Stable Families	93.556		
Strong Families/Safe Children (County)		N/A	\$ 37,296
Strong Families/Safe Children - (Health Department)		N/A	<u>64,426</u>
			<u>101,722</u>
			979,571
U.S. DEPARTMENT OF AGRICULTURE			
Passed through State Department of Community Health			
Special Supplemental Nutrition Program For Women, Infants and Children (WIC)	10.557		
Regular		XX4W1006	143,485
Special Supplemental		2006W1011	<u>4,000</u>
			147,485
ENVIRONMENTAL PROTECTION AGENCY			
Passed through State Department of Environmental Quality			
State Grants to Reimburse Operators of Small Water Systems for Training and Certification Costs	66.471	N/A	
Operator Training Certification Program			2,400
Beach Monitoring and Notification Program Implementation Grants	66.472	N/A	
Beach Monitoring and Notification Grant Program			5,760
Capitalization Grants for Drinking Water State Revolving Funds (d)	66.468		
Sanilac Township Water		7153-01	2,617,084
Carsonville Arsenic		7148-01	<u>158,732</u>
			<u>2,775,816</u>
			<u>2,783,976</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE			<u>\$ 4,317,118</u>

Sanilac County, Michigan

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

December 31, 2006

NOTE A: BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of Sanilac County, Michigan and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the basic financial statements that are reconciled in Note C.

NOTE B: SUMMARY OF SIGNIFICANT EXPLANATIONS OF SCHEDULE

The following descriptions identified below as (a)-(e) represent explanations that cross reference to amounts on the Schedule of Expenditures of Federal Awards:

- (a) The reimbursements for these programs are on a fixed unit rate basis. Expenditures have been reported to the extent of earned revenues.
- (b) Reimbursements of these contracts are passed through the State Family Independence Agency. The amounts reported on the Schedule of Expenditures of Federal Awards represent the Federal portion of the respective amounts based on 66% of total contract expenditures.
- (c) The reimbursements for the IV-D Incentive Payments Program are based on support payments collected. Expenditures have been reported to the extent of earned revenues.
- (d) Denotes programs tested as "major programs".
- (e) The reported federal expenditures for this program represent the fair market value of vaccines received during this year from the Federal government. Unexpended inventory amounts are not considered to be material.

NOTE C: RECONCILIATION TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The following reconciles the Federal revenues reported in the December 31, 2006, Basic Financial Statements to the expenditures of the County administered Federal programs reported on the Schedule of Expenditures of Federal Awards:

	<u>Federal/ State Revenue</u>	<u>Less State/Local Revenue</u>	<u>Adjustments</u>	<u>Federal Expenditures</u>
PRIMARY GOVERNMENT				
GENERAL FUND				
CRP - Prosecuting Attorney	\$ 45,206	\$ 3,365	\$ -	\$ 41,841
Emergency Management Grants	3,370	-	-	3,370
Homeland Security Grants	202,045	-	-	202,045
MHSDA Grant	122,909	-	-	122,909
Other Programs	<u>618,787</u>	<u>618,787</u>	<u>-</u>	<u>-0-</u>
TOTAL GENERAL FUND	992,317	622,152	-0-	370,165

Sanilac County, Michigan

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

December 31, 2006

NOTE C: RECONCILIATION TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

	<u>Federal/ State Revenue</u>	<u>Less State/Local Revenue</u>	<u>Adjustments</u>	<u>Federal Expenditures</u>
PRIMARY GOVERNMENT - CONTINUED				
OTHER GOVERNMENTAL FUNDS				
Friend of the Court	\$ 367,845	\$ 3,045	\$ -	\$ 364,800
Strong Families Project Fund	37,296	-	-	37,296
Health Department Fund	1,321,262	629,983	-	691,279
Other Programs	<u>1,805,509</u>	<u>1,805,509</u>	<u>-</u>	<u>-0-</u>
TOTAL OTHER GOVERNMENTAL FUNDS	<u>3,531,912</u>	<u>2,438,537</u>	<u>-0-</u>	<u>1,093,375</u>
TOTAL PRIMARY GOVERNMENT	4,524,229	3,060,689	-0-	1,463,540
COMPONENT UNIT FUNDS				
Board of Public Works	1,049,076	1,049,076	2,775,816 ⁽²⁾	2,775,816
Economic Development Corporation	218,489	140,727	-	77,762
Road Commission	<u>7,239,634</u>	<u>7,015,961</u>	<u>(223,673) ⁽¹⁾</u>	<u>-0-</u>
TOTAL COMPONENT UNIT FUNDS	<u>8,507,199</u>	<u>8,205,764</u>	<u>2,552,143</u>	<u>2,853,578</u>
	<u>\$13,031,428</u>	<u>\$11,266,453</u>	<u>\$ 2,552,143</u>	<u>\$ 4,317,118</u>

Following is a summary of the adjustment in the above schedule:

- (1) The total adjustment (\$223,673) in Federal funds represents the Department of Transportation Federal Highway grant money expended on public road improvement projects under Federal Urban and Rural Programs for the Sanilac County Road Commission. All of these federal awards were expended on projects where work was administered by the Michigan Department of Transportation; therefore, the single audit on these funds is covered with the State single audit. All of these funds have been excluded from the County's Single Audit.
- (2) The total adjustment of \$2,775,816 in Federal funds represents the portion of loan proceeds received by the Board of Public Works that are capitalized with Federal funds and thus must be reported as Federal financial assistance.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Commissioners
Sanilac County
Sandusky, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Sanilac County, Michigan as of and for the year ended December 31, 2006, and have issued our report thereon dated June 28, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Sanilac County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the County's financial statements that is more than inconsequential will not be prevented or detected by the County's internal control. We consider the deficiencies #2006-1 and #2006-2 listed in the attached Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the County's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not believe that the significant deficiencies described above are material weaknesses.

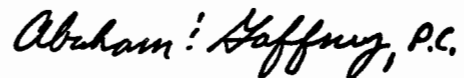
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed two (2) instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are listed as #2006-3 and #2006-4 and described in the attached Schedule of Findings.

The County's responses to the findings identified in our audit are described in the attached Schedule of Findings. We did not audit the County's responses and, accordingly, we express no opinion on them.

We noted certain matters that we have reported to management and the Board of Commissioners of Sanilac County in a separate letter dated June 28, 2007.

This report is intended solely for the information and use of management, the Board of Commissioners of Sanilac County, others within the County, the pass-through grantors, and Federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

June 28, 2007

Sanilac County, Michigan

SCHEDULE OF FINDINGS

For the Year Ended December 31, 2006

SUMMARY OF AUDITOR'S RESULTS

An unqualified opinion was issued on the basic financial statements. There were two (2) reportable conditions disclosed by the audit of the basic financial statements. We noted two (2) instances of noncompliance with laws, regulations, contracts and grants that could have a direct and material effect on the basic financial statements.

An unqualified opinion was issued on compliance for major programs. We noted no reportable conditions related to internal controls or compliance related to the major programs tested. The major program tested to cover 25 percent of the total Federal expenditures was the Capitalization Grants for Drinking Water State Revolving Funds (CFDA 66.468). Total Federal expenditures for the year ended December 31, 2006, for the major program was \$2,775,816 which is approximately 64 percent of total Federal expenditures. The County qualified as a low-risk auditee.

The County had two (2) Type A programs, the Capitalization Grants for Drinking Water State Revolving Funds (CFDA 66.468) and the Child Support Enforcement Program (Title IVD) (CFDA 93.563). Programs of less than \$300,000 were determined to be Type B programs.

FINDINGS/NONCOMPLIANCE

Reportable Conditions Related to Internal Control Over the Basic Financial Statements.

2006-1 BANK RECONCILIATIONS FOR THE INMATE TRUST ACCOUNT

Condition: The Sheriff department's inmate trust account does not reconcile to county records.

Criteria: These errors were detected but were not corrected due to there being no qualified personnel present in the Sheriff department to complete the bank reconciliation. There also appears to have been issues with the old accounting software the department used, which was replaced during the audited period. While the new software has successfully reconciled the new balances in the account, old balances continue to keep the account from balancing to County records.

Effect: Support for the inmate trust's cash balances on the trial balance was not present for the audit period ending December 31, 2006. This account was not reconciled in last year's audit and was noted in the management letter to the Board of Commissioners, dated May 26, 2006.

Recommendation: We recommend the County review procedures in the areas where these errors were noted and take steps to ensure that there is no recurrence of similar issues.

Corrective Action Response: The Sheriff department is currently working to prepare a corrective action response related to this issue.

2006-2 BANK RECONCILIATIONS FOR THE HEALTH DEPARTMENT

Condition: The Health department County pooled cash and payables account balances did not reconcile to the general ledger. Upon further analysis working with the new Finance Director, we identified the most significant differences and made audit adjusting entries to correct the balances.

Criteria: All County departments should reconcile with the County's pooled cash account on a monthly basis.

Effect: By not reconciling the County's pooled cash to the Health department's general ledger, the Health department cannot know the exact amount of funds on hand with which they can provide services. This impairs the Health department's ability to provide the most efficient level of services and also creates an internal control weakness.

SCHEDULE OF FINDINGS - CONTINUED

For the Year Ended December 31, 2006

FINDINGS/NONCOMPLIANCE - CONTINUED

Reportable Conditions Related to Internal Control Over the Basic Financial Statements - Continued

2006-2 BANK RECONCILIATIONS FOR THE HEALTH DEPARTMENT - CONTINUED

Recommendation: We recommend the Health department review procedures related to the reconciliation of cash balances to assure that all bank balances are reconciled to the general ledger on a monthly basis.

Corrective Action Response: The Health department is currently working to prepare a corrective action response related to this issue.

Findings Related to Compliance with Requirements Related to the Basic Financial Statements.

2006-3 BUDGETS

Condition: As indicated in Note M of the notes to the financial statements, some of the activities and funds of the County exceeded the amounts appropriated. The variances noted were in the General and Health Department Funds.

Criteria: Michigan Public Act 621 of 1978, as amended, provides that the County adopt formal budgets for all applicable General and Special Revenue Funds, and shall not incur expenditures in excess of the amounts appropriated. Also, the Public Act requires amendments to be performed prior to incurring additional expenditures.

Effect: The County has not maintained adequate control over budgetary compliance in accordance with State law in the certain funds where the overages occurred.

Recommendation: We recommend the County monitor expenditures against adopted budgets in all applicable funds and make appropriate budget amendments as needed.

Corrective Action Response: The Administration and Health departments are currently working to prepare corrective action responses related to this issue.

2006-4 FUND DEFICITS

Condition: As indicated in Note P of the notes to the financial statements, some of the funds of the County ended the year with unreserved fund deficits. Deficits were noted in the Health Department and Economic Development Corporation funds. Fund deficits were present in the County's December 31, 2005 audit and were noted in the management letter to the Board of Commissioners, which were both dated May 26, 2006.

Criteria: State law requires that no funds end the year in a deficit. If any deficits exist at year end, a deficit elimination plan must be created and filed with the State of Michigan Department of Treasury.

Effect: Due to economic conditions and/or services in excess of what can reasonably be provided given budgetary restrictions, the County has two (2) funds in deficit at year end.

Recommendation: We recommend the County review all funds near year end and make the appropriate adjustments when possible. The County should also closely monitor the operations of all fund activities that are in danger of ending the year in deficit.

Corrective Action Response: The Economic Development and Health departments are currently working to prepare corrective action responses related to this issue.

Sanilac County, Michigan

SCHEDULE OF FINDINGS - CONTINUED

For the Year Ended December 31, 2006

FINDINGS/NONCOMPLIANCE - CONTINUED

Findings Related to Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133.

None

Sanilac County, Michigan

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the Year Ended December 31, 2006

FINDINGS/NONCOMPLIANCE

Reportable Conditions Related to Internal Controls Over the General Purpose Financial Statements.

No prior audit findings noted.

Findings Related to Compliance with Requirements Applicable to the General Purpose Financial Statements.

No prior audit findings noted.

Findings Related to Compliance with Requirements Applicable to Federal Awards and Internal Control Over Compliance in Accordance with OMB Circular A-133.

No prior audit findings noted.